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BOARD CAPITAL AND BANK EFFICIENCY: INSIGHT FROM VIETNAM

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Abstract. This study investigates the role of board capital on bank's efficiency for a sample of 45 banks in Vietnam over 2011–2015. Using robust panel regression, we find board capital is important in making Vietnamese bank efficient even after controlling its endogeneity issue. This study further documents that networking capital and experience capital are the important factors, but not education for bank efficiency. The findings of this research contribute to the entrenchment hypothesis in agency theory, where networking and experience can be the bargaining power for manager (agent) in securing their compensation. It also contributes to human capital theory and resource base view theory where it shows networking and experience are stratetic human capital resources for bank efficiency. The findings imply that shareholders should consider the networking and experience of board members during board elections. Future research may engage with the intervention of corporate governance monitoring or test it in other developing countries context.

Keywords: board capital, networking capital, education capital, experience capital, bank efficiency.

JEL Classification: G21, G32, M12.

Introduction

Does directors' competency affect organization efficiency? Surprisingly, there is little evidence about the answer to this question as it is rarely found empirical research about the relationship between directors' competency and organization effectiveness. Most research emphasizes on the role economies of scale of a firm on organization efficiency, for example, the effect of capital structure (Margaritis & Psillaki, 2007), size (Moutsianas & Kosmidou, 2016), financial network (Silva et al., 2016), or income (Alhassan, 2015). This is quite intriguing considering Basel Accord III of BIS regulation and Sarbanes-Oxley Act 2002 address the importance of board competency in consolidating bank-firm performance. Empirical research supports this notion by documenting the benefit of financial knowledge and expertise for the organization's contingency (e.g., Karamanou & Vafeas, 2005; Kim et al., 2014).

Theoretically, the seminal proposition of "Human Capital Theory" from Becker (1964) suggests the productivity of director depends on a broad range of human capital attributes. Intriguingly, economics and management literatures have primarily centered on the agency issue such as the incentives as the key factor of productivity. If any, it is more on survey research design (e.g. Harris et al., 2015) which is more on testing a perception, or competency practices (e.g. Reeb & Zhao, 2013). Building on this research gap, this research aims to empirically investigate the effect of those board competencies on organization efficiency, especially, the banking industry.

The main rationale of this research lays on the contestation between human capital theory and agency theory. Board capital, the human capital/competency of board of directors, is important to shareholders because they have few options for poor decision-making consequence due to limited ability or skill. However, choosing capable directors in a congested labour market is hard to do as there is no consensus as to which type of capabilities fit the organization's needs (Dalton et al., 1998; Rosenbusch et al., 2011; Wang et al., 2011). In contrast, the legal system relatively supports and safeguards the incapability of directors, and shareholders-government hardly sues or prosecutes directors for board errors due to misconduct or conflict of interest (Hermalin & Weisbach, 2006).

In the context of banking industry, the competency needed is set even higher. This is due to the different banks' nature of business from other industries. Empirical findings such as Liao et al., (2007) show how competency management needed in bank is different from

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